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December 14, 2009

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*  
Auditor-Controller

SUBJECT: **CATHOLIC CHARITIES OF LOS ANGELES, INC. CONTRACT REVIEW  
– A COMMUNITY AND SENIOR SERVICES WORKFORCE  
INVESTMENT ACT PROGRAM PROVIDER – FISCAL YEAR 2008-09**

We completed a program, fiscal and administrative contract compliance review of Catholic Charities of Los Angeles, Inc., dba Archdiocesan Youth Employment Services, (Catholic Charities or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

**Background**

CSS contracts with Catholic Charities, a private non-profit agency to provide and operate the WIA Youth Program. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 - 21 years old. Catholic Charities serves participants residing in the First, Second, Third and Fifth Districts.

Catholic Charities was compensated on a cost reimbursement basis and had a contract for \$1,417,000 for Fiscal Year (FY) 2008-09.

**Purpose/Methodology**

The purpose of our review was to determine whether Catholic Charities complied with its contract terms and appropriately accounted for and spent WIA funds in providing the services outlined in their County contract. We interviewed Agency staff and evaluated

the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

### **Results of Review**

Catholic Charities did not always comply with all WIA and County contract requirements. For example, Catholic Charities did not:

- Maintain proper documentation, such as a written referral from a parent, teacher or probation officer, to support the participant's barrier eligibility for one (10%) of the ten participants sampled as required by WIA Directive LACOD-WIAD08-12.
- Comply with federal and County guidelines that prohibit the inclusion of subcontractor payments in the distribution base to allocate shared costs on their Cost Allocation Plan.
- Maintain proof of employability in employees' personnel files for two (20%) of the ten employees sampled as required by Part II, Section 32.0 of the County contract.
- Report expenditure accruals on a quarterly basis as required by WIA Directive LACOD-WIAD08-19.
- Meet all the FY 2008-09 third quarter planned performance outcomes as outlined in the County contract.
- Update the participants' program activities on the Job Training Automation (JTA) system within 12 days following the reporting period for two (20%) of the ten participants sampled as required. Subsequent to our review, Catholic Charities updated the JTA system to accurately reflect the program activities for one of the two participants.

Details of our review along, with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with Catholic Charities and CSS on September 8, 2009. In their attached response, Catholic Charities disagreed with the majority of our findings. Our findings are based on the County contract requirements and WIA guidelines. For example:

#### **Eligibility**

**Finding:** Catholic Charities did not maintain proper documentation to support high school dropout barriers, such as a written referral from a parent, teacher or probation

officer, to support one participant's barrier eligibility as required by the CSS WIA Directive.

**Agency's response:** Catholic Charities indicated that the documentation requirement in the WIA Directive is a 'guide' and not necessarily mandatory.

**Auditor's response:** CSS management indicated that the WIA Directives are policies and not just "guides" or "suggestions". They also indicated that all contractors are required to comply with the Directives. In addition, Catholic Charities received technical assistance and attended training on appropriate documentation to support high school dropout barriers.

### **Cost Allocation Plan**

**Finding:** Catholic Charities' Cost Allocation Plan included subcontractor expenditures in their allocation which is prohibited.

**Agency's response:** Appropriate adjustments were made to the revised Cost Allocation Plan. These adjustments were shared with representatives of the Auditor-Controller and CSS during the exit conference. The revised Cost Allocation Plan for FY 2008-09 was made in March 2009 and was implemented on a go-forward basis in April 2009.

**Auditor's response:** As of September 30, 2009, Catholic Charities did not provide our office with the revised Cost Allocation Plan that complied with the County contract. In addition, Catholic Charities did not provide documentation to support the allocation adjustments made to conform to the revised Cost Allocation Plan.

### **Administrative Controls/Contract Compliance**

**Finding:** Catholic Charities did not always mark invoices and other supporting documentation as "paid" as required by Part B, Section 2.1 of the Auditor-Controller Contract Accounting and Administration Handbook.

**Agency's response:** Our accounting system and internal controls already have safeguards to avoid duplication of payment, which is the implied intent of marking invoices paid. Consequently, we disagree that marking invoices "paid" is a necessary requirement.

**Auditor's response:** We reviewed Catholic Charities' described safeguards in their accounting system or internal controls. We concluded that the Catholic Charities did not adequately describe or provide us with documentation that the Agency's controls prevent reuse or duplicate payments.

CSS agreed with our report and indicated that they will work with Catholic Charities to ensure that all recommendations are implemented. We thank Catholic Charities for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer  
Cynthia D. Banks, Director, Community and Senior Services  
Rev. Monsignor Gregory A. Cox, Executive Director, Catholic Charities of Los Angeles, Inc. dba Archdiocesan Youth Employment Services  
Cardinal Roger M. Mahony, Chairman, Catholic Charities of Los Angeles, Inc. dba Archdiocesan Youth Employment Services  
Public Information Office  
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM  
CATHOLIC CHARITIES OF LOS ANGELES, INC.  
FISCAL YEAR 2008-09**

**ELIGIBILITY**

**Objective**

Determine whether Catholic Charities of Los Angeles, Inc., dba Archdiocesan Youth Employment Services, (Catholic Charities or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

**Verification**

We reviewed the case files for ten (26%) of the 38 participants that received services from July 2008 from October 2008 for documentation to confirm their eligibility for WIA services.

**Results**

Catholic Charities did not maintain appropriate documentation to support the eligibility for one (10%) of the ten participants sampled. Specifically, Catholic Charities did not maintain a written referral from a parent, teacher or probation officer, to support the participant's barrier eligibility as required by WIA Directive LACOD-WIAD08-12. Catholic Charities billed Community and Senior Services (CSS) for \$175 in direct costs associated with providing services to the ineligible individual. However, the Agency also may have billed CSS for other direct and indirect services for the ineligible individual, such as staff time; we were unable to determine the amount.

**Recommendations**

**Catholic Charities management:**

- 1. Determine the total cost (direct and indirect) associated with the services provided to the ineligible participant and repay CSS for the unallowable cost.**
- 2. Ensure that staff obtain appropriate documentation from the participants to determine their eligibility for program services prior to enrollment.**

**BILLED SERVICES/CLIENT VERIFICATION****Objective**

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

**Verification**

We reviewed the case files for ten (26%) of the 38 participants that received services from July 2008 from October 2008 for documentation to confirm their eligibility for WIA services.

**Results**

Catholic Charities did not update the participants' program activities, such as exiting the program and assessment services, on the Job Training Automation (JTA) System within 12 days for two (20%) of the ten participants sampled. According to WIA Directive LACOD-WIAD08-20, contractors are required to update the participants' program activities into the JTA System within 12 days following the reporting period. The State of California Employment Development Department and the Department of Labor use the JTA System to track WIA participant activities. We noted a similar finding during the prior two years' monitoring reviews.

Subsequent to our review, Catholic Charities updated the JTA System to accurately reflect the program activities for one of the two participants.

**Recommendation**

3. Catholic Charities management ensure that staff update the JTA System within 12 days following the reporting period to accurately reflect the participants' program activities.

**PERFORMANCE OUTCOMES REVIEW****Objective**

Determine whether the Agency met the planned performance measures as outlined in the County contract. The performance outcomes included measuring the number of participants that enrolled in the program, exited the program, completed training and/or gained employment.

**Verification**

We compared the Agency's Fiscal Year (FY) 2008-09 actual performance outcomes for the third quarter to the planned performance outcomes outlined in the County contract.

**Results**

Catholic Charities did not meet all the FY 2008-09 third quarter planned performance outcomes as outlined in the County contract. Specifically, Catholic Charities planned to enroll 228 new participants, exit 122 participants and place 78 participants into employment by the end of the third quarter. However, Catholic Charities enrolled 188 (83%) new participants, exited 25 (21%) participants and placed 11 (14%) participants into employment. We noted a similar finding during the prior year's monitoring review.

**Recommendation**

4. Catholic Charities management ensure that planned performance outcomes are met as required by the County contract.

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's bank activity for September 2008.

**Results**

Catholic Charities maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

**Recommendation**

None.

**COST ALLOCATION PLAN**

**Objective**

Determine whether Catholic Charities' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed the Agency's Cost Allocation Plan and a sample of expenditures incurred by the Agency in July and September 2008 to ensure that the expenditures were properly allocated to the Agency's programs.

**Results**

Catholic Charities' Cost Allocation Plan was not prepared in compliance with the County contract. Specifically, Catholic Charities' Cost Allocation Plan included subcontractor expenditures in their allocation. Part D, Section 2.c of Office of Management and Budget Circular A-122 and Part C, Section 2.2 of the Auditor-Controller Contract Accounting and Administration Handbook prohibit the inclusion of items, such as subcontractor payments, in the distribution base to allocating shared costs. We noted a similar finding during the prior year's monitoring review.

**Recommendations**

**Catholic Charities management:**

- 5. Revise the Agency's Cost Allocation Plan to comply with the County contract.**
- 6. Review the FY 2008-09 shared program expenditures, reallocate the shared expenditures based on an acceptable cost allocation method and repay CSS for any overbilled amounts.**

**EXPENDITURES/PROCUREMENT**

**Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.



**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 10 non-payroll expenditure transactions billed by the Agency for July and September 2008, totaling \$18,793.

**Results**

Catholic Charities did not maintain adequate documentation, such as original invoices, to support the subcontractor expenditures, totaling \$8,750. Subsequent to our review, Catholic Charities provided the original invoices to support the expenditures.

**Recommendation**

7. Catholic Charities management maintain adequate documentation to support program expenditures.

**ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE****Objective**

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

**Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various areas such as expenditures, payroll and personnel.

**Results**

Catholic Charities did not always comply with WIA and County contract requirements. Specifically:

- Catholic Charities did not report expenditure accruals on a quarterly basis as required by WIA Directive LACOD-WIAD08-19.
- Catholic Charities did not always mark invoices and other supporting documentation as "paid" as required by Part B, Section 2.1 of the Auditor-Controller Contract Accounting and Administration Handbook.

**Recommendations**

**Catholic Charities management:**

- 8. Report quarterly expenditure accruals.**
- 9. Ensure that invoices and other supporting documentation are marked "paid."**

**FIXED ASSETS AND EQUIPMENT**

Determine whether Catholic Charities' fixed assets and equipment purchases made with WIA funds are used for the WIA Program and are safeguarded.

We did not perform test work in this section as Catholic Charities did not use WIA funds to purchase fixed assets or equipment.

**Recommendation**

**None.**

**PAYROLL AND PERSONNEL**

**Objective**

Determine whether payroll expenditures were appropriately charged to the WIA Program. In addition, determine whether the Agency obtained criminal record clearances, verified employability, and maintained current driver's licenses and proof of automobile insurances for the employees assigned to the WIA Program.

**Verification**

We traced the payroll expenditures invoiced for 23 employees totaling \$33,229 for September 2008 to the Agency's payroll records and time reports. We also interviewed one employee and reviewed the personnel files for ten employees assigned to the WIA Program.

**Results**

Catholic Charities appropriately charged the payroll expenditures to the WIA Program. However, Catholic Charities did not maintain proof of employability in the employees' personnel files for two (20%) of the ten employees sampled as required by Part II, Section 32.0 of the County contract. Subsequent to our review, Catholic Charities provided proof of employability for the two employees.

**Recommendation**

10. Catholic Charities management maintain proof of employability in the employee's personnel file.

**CLOSE-OUT REVIEW**

**Objective**

Determine whether the Agency's FY 2007-08 final close-out invoice reconciled to the Agency's financial accounting records.

**Verification**

We traced Catholic Charities' FY 2007-08 general ledger to the Agency's final close-out invoice for FY 2007-08.

**Results**

Catholic Charities' FY 2007-08 general ledgers reconciled to the Agency's final close-out invoice for FY 2007-08.

**Recommendation**

**None.**



Cardinal Roger M. Mahony  
Chairman of the Board

Monsignor Gregory A. Cox  
Executive Director

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Wendy L. Watanabe, Auditor-Controller  
Department of Auditor-Controller  
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350 S. Figueroa Street, 8<sup>th</sup> Floor  
Los Angeles, CA 90071

September 22, 2009

Attention: Yoon Bae

**SUBJECT: CATHOLIC CHARITIES OF LOS ANGELES, INC. CONTRACT - A COMMUNITY AND  
SENIOR SERVICES WORKFORCE INVESTMENT ACT PROGRAM PROVIDER FOR  
FISCAL YEAR 2008-09**

On behalf of the *Archdiocesan Youth Employment Services* (AYE) of Catholic Charities of Los Angeles, we have enclosed our response to the fiscal and administrative review of the Community and Senior Citizen Services (CSS) Workforce Investment Act (WIA) program.

Although we believe that the audit was conducted in a professional manner, we disagree with most of the findings, which should have been resolved many months ago during the review process. Some of these findings were not disclosed during the preliminary meeting with County auditors and only recently surfaced during the exit conference. This review was performed over seven months ago. In our opinion, every effort should be made to issue a timely report and resolve and clear findings before the audit report is published.

As indicated in the report, the questioned costs and proof of employability were resolved. With the exception of planned performance, eligibility and JTA reporting, all other findings were resolved with measures to ensure compliance with cost allocation and accrual reporting standards.

A detailed response that outlines specific recommendations and corrective action is enclosed. If you have any questions please contact Robert L. Gutierrez, AYE Director at (213) 736-5456 or me at (213) 251-3466.

By the way Ms. Watanabe, congratulations on your permanent promotion. I am sure it is well deserved.

Sincerely yours,

David I. Furukawa  
Assistant Controller

Attachment

cc: William T Fujioka, Chief Executive Officer  
Cynthia Banks, Director, Department of Community and Senior Services  
Rev. Monsignor Gregory A. Cox, Executive Director, Catholic Charities of Los Angeles  
Robert L. Gutierrez, AYE Director, Archdiocesan Youth Employment Services of Catholic Charities



CATHOLIC CHARITIES OF LOS ANGELES, INC. (DBA ARCHDIOCESAN YOUTH EMPLOYMENT SERVICES) RESPONSE TO  
DRAFT COUNTY AUDIT REPORT RECEIVED SEPTEMBER 15, 2009

**ELIGIBILITY**

**Recommendation**

1. Repay CSS for services provided to the ineligible participant.
2. Ensure that staff obtains appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.

**Response**

The participant met both income criteria and multiple barrier requirements. The high school dropout barrier was questioned for not conforming to the County CSS WIA Youth Directive regarding file program content guide to include a letter from a parent, teacher or probation officer. However, the documentation is a 'guide' and not necessarily mandatory. In this case, we enrolled a low income, 19 year old, unemployed, emancipated youth, who declared he was a high school dropout. He was assessed 'basic skills deficient' and in dire need of program services to ensure self-sufficiency.

Federal and State eligibility guidelines specifically state that access to WIA services should not frustrate persons who are struggling with unnecessary eligibility documentation. Consequently, we disagree with the finding and recommend that a CSS policy directive revision be made to allow for self declaration for barriers, when formal documentation is not available.

**BILLED SERVICES/CLIENT VERIFICATION**

**Recommendation**

3. Catholic Charities management ensure that staff update the Job Training Automation system within 12 days following the reporting period to accurately reflect the participants' program activities.

**Response**

The delays in reporting two client's outcome into the JTA system represents an exception to practice. Every effort is made to ensure information is received from field offices and inputted into the JTA system within a reasonable time frame. However, the 12 day timeframe is very short when one considers the level of detail involved with the review process. While we recognize that timely reporting is important, we must also ensure a thorough review is made so that accurate and complete information is properly submitted to avoid potential problems associated with errors.

## PERFORMANCE OUTCOMES

### Recommendation

4. Catholic Charities management ensures that performance measures outlined in the County contract are met.

### Response

AYE serves multi-barrier economically disadvantaged youth. Approximately 85% require educational remediation and many are high school dropouts, single parents, foster or probation youth. Nearly 40% are from families receiving public assistance with 95% living below the 70% of the poverty level. While we make every effort to achieve planned outcomes, the special challenges facing our targeted youth population involve issues that cannot always be achieved within the timeframe.

AYE achieves 85% positive outcomes and will not exit a client until they have acquired necessary skills and a career or vocational plan to ensure their long term success and employability. We make every effort to develop and negotiate a plan to ensure quantitative performance goals are met in the future. Since this was the first year in the new funding cycle, we found it necessary to carryover a large number of youth into the new program year to ensure completion of training and education services to meet performance outcomes.

AYE and other youth deliverers have submitted recommendations to the Workforce Investment Board to adopt DOL Common Performance Measures for youth programs, which is the standard the State requires of the County CSS. The current local standards need to be aligned with federal and state requirements to ensure successful completion and performance outcomes that serve the best interests of the community and young people we serve.

The most recent CSS report indicates that 61% of youth providers did not meet local performance measures. However, this does not necessarily mean that performance was weak, but rather that the local performance measure were not appropriate for the youth service component. For example, the WIB established an \$8,500 per job placement outcome for youth, which is not the ideal outcome, especially during one of the worst economic conditions since post-WW II.

Unskilled inexperienced youth need to be encouraged to continue their education, which is why DOL established post-secondary education and advanced training outcomes. Studies clearly show that higher educational attainment improves income and self-sufficiency. DOL also established credential and high school diploma or GED as well as Literacy-Numeracy gains for out-of-school youth. However, these performance standards were not reflected in the contract performance planning matrix form. Fortunately, the County CSS has formed a taskforce with practitioners to review the performance requirements that will offer positive change and improve the youth delivery system.

### COST ALLOCATION PLAN

#### Recommendations

5. Revise the Agency's Cost Allocation Plan to comply with the County contract.
6. Review the FY 2008-09 shared program expenditures, relocate the shared expenditures based on an acceptable cost allocation method and repay CSS for any over billed amounts.

#### Response

The recommendations were implemented with appropriate adjustments made to conform to the revised cost allocation plan and expenditure allocation. These adjustments were shared with representatives of the County Auditor Controller and CSS during the exit conference. The cost allocation for FY 08-09, thru March was made in March 2009 and was implemented on a go forward basis in April 2009.

### EXPENDITURES/PROCUREMENT

#### Recommendations

7. Catholic Charities management maintains adequate documentation to support program expenditures and require subcontractors to invoice for actual expenditures on a regular basis as required by contract.

#### Response

Catholic Charities AYE requires network subcontractors to submit timely and accurate financial reports. This includes notification to subcontractors when invoices are late. However, it is necessary to accrue estimated monthly costs to reflect full expenditures at least monthly. The large local education partner has experienced difficulty in submitting timely invoices; however, we believe this education partner is essential to our delivery system in our efforts to stem the alarming high school dropout rate. Since estimated accruals are adjusted as actual invoices are received, we believe the final invoices do in fact reflect actual expenditures.

### ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

#### Recommendation

8. Catholic Charities management report quarterly expenditures accruals.
9. Ensure that invoices and other supporting documentation are marked "paid".

#### Response

Catholic Charities AYE does report quarterly expenditures accruals; however, we were using an old form (5/31/07) that requested the accrual information on page 2, instead of page 1. Starting July 2009, we began using the new form which was sent to us with the new contract billing material. As for the recommendation that invoices and other supporting documentation are marked "paid", our accounting system and internal controls already have safeguards to avoid duplication of payment, which is the implied intent of marking invoices paid. Consequently, we disagree that marking invoices "paid" is a necessary requirement.

**PAYROLL AND PERSONNEL**

**Recommendations**

10. Catholic Charities management maintains proof of employability in the employee's personnel file.

**Response**

As indicated by the County Auditor Controller's report, documentation was provided at the time of the exit conference and this finding was resolved as we provided proof of employability for two employees.

**CLOSE-OUT REVIEW**

The recommendation and response are addressed under Administrative Controls and Contract Compliance. See Recommendation #8.